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# CONTROLLING PATENT TROLLING WITH CIVIL RICO

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## CONTROLLING PATENT TROLLING WITH CIVIL RICO

Blair Silver\*

11 YALE J.L. & TECH. 70 (2009)

### ABSTRACT

*The modern patent system is incapable of policing extensive fraud. This inability to control fraudulent activity has created a system susceptible to abuse. The current remedies offered by the courts to counterbalance fraudulent conduct and trolling have not proved a sufficient disincentive to curb this behavior. Specifically, the remedies for fraud, such as inequitable conduct, have not proven capable of deterring repetitive abusers.*

*Civil RICO may be that solution. RICO has been an avenue pursued as a defense to patent infringement ever since RICO was extended civilly over legitimate businesses. RICO can be used as an effective deterrent to repetitive abuse of the patent system and extortionate litigation schemes that threaten large segments of industry. RICO has such an effect because of the scope of its remedies: treble damages, attorney's fees, and investigation costs. While civil RICO should not apply where the Patent Office's standard remedies of unenforceability for inequitable conduct compensate for individual instances of fraud, civil RICO can be used to limit repeated abuses of the system where these ordinary penalties do not work.*

*This paper will address the questions of why RICO deters patent abuse, where RICO stands with patent law today, what the standards for applying RICO to patent holders should be, and what the future holds for RICO and patent law.*

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## CONTROLLING PATENT TROLLING WITH CIVIL RICO

## INTRODUCTION

Aggressive patent enforcement suits by patent holding companies have become commonplace in the modern patent system. Such holding companies acquire their questionable patents by abusing the patent office. These “patent trolls” engage in excessive litigation, assaulting industry after industry and extorting huge sums of money. The current system’s counterbalances to fraudulent conduct and trolling are not adequate disincentives to curb this behavior. Patent trolling has become such a huge issue that Congress and the Patent and Trademark Office (PTO) have proposed a series of substantial amendments to the patent system to alleviate trolling. However, using current law in new, creative ways may inhibit some troll behavior: when the behavior becomes extreme enough, systemic enough, and prolonged enough, the Racketeer Influenced and Corrupt Organizations Act, also known as RICO, may help stymie costly trolling.

The RICO Act was originally designed to prevent organized crime. However, the Act’s broad reach due to its close relationship with fraud, mail fraud in particular, have led to a broad application of its provisions. Successful civil RICO plaintiffs receive huge awards: treble damages, reasonable attorney’s fees, and investigation costs. The threat of such large damages will deter ambitious trolls from attempting fraud or extreme influence on the Patent Office and from engaging in overly litigious behavior. So far, however, the courts have met civil RICO challenges with little enthusiasm. Usually, civil RICO patent cases are dismissed for formalistic reasons. The Federal Circuit has also limited the conduct that qualifies for civil RICO to post-grant activity. However, a few key cases have refused to dismiss civil RICO challenges in the patent context; in particular, the *Lemelson* case lays a foundation for how RICO can be used to curb extreme trolling behavior. Therefore, because of modern systemic abuses of the patent system and the flexibility of RICO, civil RICO should be applied more often in patent litigation cases to curb extensive fraud on the PTO and abuse of the courts.

This paper explains how Civil RICO can reign in extreme trolling behavior. Part I will discuss why there is a need to extend RICO into patent law by laying out the modern problem of patent trolling and discussing the public benefits of applying RICO. Part II will explore the history of RICO, why RICO is attractive to claimants, and the elements of a civil RICO claim. Part III will discuss how RICO and patent law overlap and what limitations have been imposed by the courts in applying RICO. Part IV will discuss specifically where RICO can and should be applied in modern patent law and how civil RICO may disproportionately

affect brand name pharmaceutical companies. Finally, Part V will conclude by summarizing the paper and by offering some normative thoughts on civil RICO and patent law.

## I. WHY RICO? TROLLS, *LEMELSON*, AND JUDICIAL EFFICIENCY

Patent trolling, the modern pejorative term for aggressive enforcement of patents against alleged infringers by patent holding companies, has become a major area of concern in patent law.<sup>1</sup> Numerous shell companies have been created for the sole purpose, sometimes even stated in their bylaws, of litigating their patents. Many of these companies have no assets aside from their patents, which are commonly acquired through bankruptcy proceedings, settlement negotiations, and questionable tactics in dealing with the Patent Office. Most of the patent holding companies use aggressive litigation techniques, do not innovate, and do not practice their inventions. Such aggressive enforcement of the monopolistic rights of a patent raises the cost of manufacturing due to the cost of litigation, settlement, and extreme licensing fees.<sup>2</sup> Raising such costs makes patenting less attractive by encouraging trade secrets over public disclosure. This patenting cost may be passed on to consumers and may be a disincentive to innovate.<sup>3</sup>

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<sup>1</sup> See Steve Seidenberg, *Troll Control: The Supreme Court's eBay Decision Sets Back Pesky 'Patent Trolls' or American Innovation, Depending upon Which Side You're On*, A.B.A. J., Sept. 2006, at 51, 51 (defining a patent troll as “the nefarious term for businesses that produce no products or services and have the sole purpose of obtaining money by licensing patents they own and winning infringement lawsuits against others”). The term “patent troll” has been widely credited to Peter Detkin, a former assistant general counsel at Intel Corporation. *Id.* at 53.

<sup>2</sup> The key argument against patent trolls is not that their assertions are necessarily invalid, but rather that they are in a position to negotiate licensing fees that are grossly out of alignment with their contribution to the alleged infringer's product or service. . . . The aggressive tactics of the bad patent holders increases the transaction costs for good patent holders when they wish to signal that their claims of infringement must be taken seriously.

Matthew Sag & Kurt Rohde, *Patent Reform and Differential Impact*, 8 MINN. J.L. SCI. & TECH. 1, 9-10 (2007); see also Joseph Farrell & Robert P. Merges, *Incentives to Challenge and Defend Patents: Why Litigation Won't Reliably Fix Patent Office Errors and Why Administrative Patent Review Might Help*, 19 BERKELEY TECH. L.J. 943, 953 (2004) (discussing the difference between the burden of infringement suits on monopolists versus competitive markets).

<sup>3</sup> See John M. Golden, Commentary, “Patent Trolls” and Patent Remedies, 85 TEX. L. REV. 2111, 2111-12 & n.3 (2007) (noting the “strong perception that patents have become a substantial and growing tax on modern economic activity”); see also ADAM B. JAFFE & JOSH LERNER, INNOVATION AND ITS

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Patent trolling is a modern trend, best exemplified by the famous tactics of Jerome Lemelson. Lemelson used a technique known as “submarine patenting” to negotiate licenses and settlements worth billions of dollars from major corporations. Submarine patenting begins with filing successive continuation applications with the PTO based on an original patent application. The continuations are then used to delay the issuance of a patent, sometimes by decades. Years later, the patents in question rise from the depths of the PTO, like a submarine, with claims that subsume modern technology. The patentee then uses this submarine patent to threaten litigation and force settlement for huge sums of money. Lemelson’s techniques, which many consider extortionate and an abuse of the PTO, form the basis of modern patent trolling.<sup>4</sup>

Lemelson’s strategy has inspired many copycats, who seek to manipulate the PTO and legal system in seemingly extortionate manners. The Federal Circuit acknowledged that such patent practice “prejudice[s] the public as a whole.”<sup>5</sup> Over the years, however, patent trolling has not gone away. In fact, modern patent trolls have built upon Lemelson’s manipulation of the patent process in other creative ways. Even opportunistic patent attorneys have been caught purchasing large patent portfolios to sue major industries.<sup>6</sup> Much of the debate over modern patent law has revolved around how to deal with trolling.

Such abuses of the patent system have received congressional attention. Recently, Congress considered substantial amendments to the patent system aimed at curbing patent trolling.<sup>7</sup> Even the Patent Office is pushing through reforms. For example, the Patent Office seeks to limit Lemelson-style submarine patenting by effectively limiting the number of continuation

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DISCONTENTS 2 (2004) (“[T]he patent system . . . is generating waste and uncertainty that hinders and threatens the innovative process.”).

<sup>4</sup> See Robert Greene Sterne et al., *The 2005 U.S. Patent Landscape for Electronic Companies*, 823 PLI/Pat 293, 309-15 (2005).

<sup>5</sup> *Symbol Techs., Inc., v. Lemelson Med., Educ. & Research Found., LP*, 429 F.3d 1051, 1052 (Fed. Cir. 2005).

<sup>6</sup> See William Barrow, Comment, *Creating a Viable Alternative: Reforming Patent Reexamination Procedure for the Small Business and Small Inventor*, 59 ADMIN. L. REV. 629, 630-31 & n.4 (2007) (noting that NTP, Inc., a patent holding company founded by a patent attorney would most certainly meet the definition of patent troll).

<sup>7</sup> Patent Reform Act of 2007, H.R. 1908, 110th Cong. (2007); Patent Reform Act of 2007, S. 1145, 110th Cong. (2007).

applications.<sup>8</sup> Patent abuse and the health of the patent system is a major concern for Congress and the Patent Office. However, many such remedies are palliative — addressing the symptoms and individual methods of patent trolling without focusing on the reasons for patent trolling. In fact, a few of the proposed reforms could open new avenues for abuse of process, including the proposed third-party submissions and post-grant review procedures.<sup>9</sup> Such drastic revisions to the patent system may be long overdue. However, any new system only opens the door to new, creative abuses. Along with the reforms proposed in Congress, a potential weapon against the modern troll that has been with us for a long time, though not yet taken seriously by courts, is the Racketeer Influenced and Corrupt Organizations Act, or RICO.

RICO provides strong disincentives for trolling because the Act threatens patent trolls who manipulate the patent system with treble damages, reasonable attorney's fees, and litigation costs.<sup>10</sup> In fact, the most successful alleged patent troll of all time, Lemelson, was also a major test case for applying RICO to patent law.

In 1994, Lemelson was involved in litigation against Wang Laboratories over image processing systems and related computer technology.<sup>11</sup> After Lemelson accused Wang Laboratories of patent infringement, Wang Laboratories alleged Lemelson violated RICO's civil provisions by using mail and wire fraud unlawfully to exploit the patent system and to extort millions of dollars through the systematic threat of legal action.<sup>12</sup> The court refused to dismiss Wang Laboratories's RICO counterclaim on a motion to dismiss for lack of standing.<sup>13</sup> The court found that a pattern of extortion involving millions of dollars in settlements through a pattern of

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<sup>8</sup> See Changes to Practice for Continued Examination Filings, Patent Applications Containing Patentably Indistinct Claims, and Examination of Claims in Patent Applications, 72 Fed. Reg. 46,716, 46,837, 46,841 (Aug. 21, 2007) (to be codified at 37 C.F.R. §§ 1.78(d)(1)), 1.114) (establishing the new limitation on continuation and requests for continued examination applications). These new rules have met with hostility. Recently, a district court enjoined the Patent Office from implementing the new continuation limitations rules, as they were substantially likely to be contrary to the patent statute grant. See *Tafas v. Dudas*, 511 F. Supp. 2d 652, 664-65 (E.D. Va. 2007).

<sup>9</sup> See *infra* Part IV.B.

<sup>10</sup> 18 U.S.C. § 1964(c) (2006).

<sup>11</sup> *Lemelson v. Wang Labs., Inc.*, 874 F. Supp. 430, 432 (D. Mass. 1994).

<sup>12</sup> *Id.* at 431; see 18 U.S.C. § 1962(c).

<sup>13</sup> *Lemelson*, 874 F. Supp. at 434.

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litigation based on fraudulently obtained patents via the use of the mail and wire systems met the threshold for summary judgment on RICO.<sup>14</sup> Even though the case was settled shortly before going to trial, *Lemelson* suggests that RICO may be used to control patent trolls.

Furthermore, RICO helps promote judicial efficiency by encouraging party joinder in lieu of individual attacks on industry members. A common tactic by patent trolls is to sue one manufacturer in an industry and force settlement or litigation. Then, based on that acquiescence, the troll systematically approaches other members of the same industry with the same or similar patents and forces additional settlements. The *Lemelson* case could serve as a disincentive to approach patent suits in this manner because trolls risk having the extortionate pattern of litigation qualify as a pattern of racketeering activity. The proper application of RICO to patent trolling will help prevent this sort of systematic, piecemeal attack on an entire industry.

The costs on the patent system due to trolling continue to grow. Instead of focusing on palliative remedies, courts should not overlook pre-existing laws, such as RICO, to help limit trolling. Extensive fraud on the PTO and abuse of the court systems can be curbed, and judicial efficiency can be promoted, by reinvigorating civil RICO in patent litigation. Due to modern abuses of the patent system and the flexibility of RICO, courts should be more receptive to RICO in patent litigation cases.

## II. WHAT IS RICO?

### A. History of RICO

Congress passed the Racketeer Influenced and Corrupt Organizations Act in 1970 as part of Title IX of the Organized Crime Control Act of 1970.<sup>15</sup> RICO was designed primarily to curb organized crime. However, Congress deliberately drew RICO broadly, mandating “liberal construction” in an effort to prevent circumvention by organized criminal entities.<sup>16</sup> Although the original bill was a criminal statute, Congress added a civil enforcement mechanism under RICO similar to those in antitrust.<sup>17</sup>

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<sup>14</sup> *Id.*

<sup>15</sup> Pub. L. No. 91-452, 84 Stat. 922, 941-48 (codified at 18 U.S.C. §§ 1961-1968 (2006)).

<sup>16</sup> § 904(a), 84 Stat. at 947 (“The provisions of this title shall be liberally construed to effectuate its remedial purposes.”).

<sup>17</sup> 18 U.S.C. §§ 1964; *see Sedima, S.P.R.L. v. Imrex Co.*, 473 U.S. 479, 490 (1985).



This civil mechanism has become very alluring to civil plaintiffs because of the availability of treble damages for injuries caused by violations of the act, costs of the suit, and reasonable attorney's fees.

The liberal construction of the broad RICO statute along with the available civil remedies has caused RICO to take on a life of its own.<sup>18</sup> The growth of civil RICO has been primarily because of its ready applicability to fraud-based offenses.<sup>19</sup> Over the years, the court has extended RICO to commercial plaintiffs, applying civil RICO liability to ordinary business fraud, regardless of whether the enterprise is legitimate or illegitimate.<sup>20</sup> This versatility in applying RICO has led to creative applications by civil plaintiffs of the civil statute, including in patent law.

### **B. The Allure of RICO — Flexibility and Mandatory Damages**

The court's broad reading of civil RICO allows very creative interpretation and application of provisions. Under the patent regime, accused infringers commonly apply civil RICO by alleging the patentee acquired the patent-in-suit through fraud.<sup>21</sup> In other cases, the patent holder, which could even be a patent troll, accused the alleged infringer of a civil RICO violation for selling infringing goods to customers.<sup>22</sup> Either party in a patent suit - the alleged infringer or the patentee - can argue a civil RICO violation, making RICO a generally versatile option during patent litigation. However, civil RICO is best applied as a deterrence against aggressive patent trolls than against alleged infringers.

The allure of RICO lies beyond flexibility, in its remedies. RICO calls for the award of treble damages, costs of the suit, and reasonable attorney's fees.<sup>23</sup> The statute's remedy provision is

<sup>18</sup> See *Johnson Elec. N. Am., Inc., v. Mabuchi Motor Am. Corp.*, 98 F. Supp. 2d 480, 491-92 (S.D.N.Y. 2000) (citing *Sedima*, 473 U.S. at 497).

<sup>19</sup> See *Sedima*, 473 U.S. at 499 n.16 (noting that 77% of civil RICO cases filed involved fraud).

<sup>20</sup> *Id.* at 499-500 (extending civil RICO to commercial plaintiffs in ordinary business fraud, whether legitimate or illegitimate enterprises).

<sup>21</sup> See, e.g., *Jennings v. Auto Meter Prods., Inc.*, 495 F.3d 466 (7th Cir. 2007).

<sup>22</sup> See *Johnson Elec.*, 98 F. Supp. 2d 480 (alleging a civil RICO violation for failure to disclose to customers the fact that the goods infringed the patent). However, the court refused to extend the civil RICO doctrine to encompass this type of fraud, because there is no duty to disclose. *Id.* at 491-92.

<sup>23</sup> 18 U.S.C. § 1964(c) (2006) ("Any person injured in his business or property by reason of a violation of section 1962 of this chapter may sue therefore in any appropriate United States district court and shall recover threefold the damages he sustains and the cost of the suit, including a reasonable attorney's fee.").

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mandatory: “any person injured . . . shall be awarded.”<sup>24</sup> Mandatory treble damages, costs, and attorneys fees dwarf the normal remedies under the modern patent regime.

Under the patent laws, treble damages are available, but they are not mandatory.<sup>25</sup> Attorney’s fees are only available in exceptional cases.<sup>26</sup> This uncertainty has not stopped would-be plaintiffs from alleging willful infringement, a common ground for exceptional circumstances and treble damages, in almost every patent suit.<sup>27</sup> Many attorneys may find a strong incentive to seek damages under civil RICO because if the RICO claim is successful, treble damages are mandatory.

Other fraud remedies available under patent law are equally lackluster in comparison. Inequitable conduct, which is also commonly pled in patent lawsuits, will render a patent unenforceable after finding fraud on the PTO.<sup>28</sup> Antitrust liability can lead to enhanced damages under the almost defunct doctrine of *Walker Process*, due to the fraudulent procurement of a patent.<sup>29</sup> Under *Walker Process*, damages are available beyond unenforceability if the patentee obtained the patent by knowing and willful misrepresentations of fact to the PTO and after an evaluation of the antitrust implications of issuing that patent.<sup>30</sup> The claimant must prove all the elements of a Sherman Act Section 2 case, which include an appraisal of the exclusionary power of the illegal patent claim in terms of the relevant market for the product involved.<sup>31</sup> *Walker Process* claims pose a notoriously difficult burden, which has greatly diminished the doctrine’s value.

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<sup>24</sup> *Id.*

<sup>25</sup> 35 U.S.C. § 284.

<sup>26</sup> *Id.* § 285.

<sup>27</sup> However, recently, this doctrine has been stepped back to pre-litigation conduct only. *In re Seagate Tech., LLC*, 497 F.3d 1360, 1374 (Fed. Cir. 2007). This would seem to make RICO liability, which reaches litigation conduct, even more attractive.

<sup>28</sup> *E.g.*, *Mech. Plastic Corp. v. Rawlplug Co.*, 14 U.S.P.Q.2d (BNA) 1058, 1061 (S.D.N.Y. 1989) (“In order to set up a disincentive for shirking this duty to disclose, courts have permitted defendants to assert, as a defense to a claim of patent infringement, that the patent in suit is unenforceable by reason of the applicant’s ‘inequitable conduct’ in dealings with the PTO.”).

<sup>29</sup> *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177 (1965).

<sup>30</sup> *Id.*

<sup>31</sup> *See id.* After proving the Sherman Act Section 2 case, the claimant must also show: (1) a false representation or deliberate omission of a fact material to patentability; (2) made with the intent to deceive the patent examiner; (3) on which the examiner justifiably relied in granting the patent; and (4) but for

Therefore, civil RICO is an attractive alternative as compared to the uncertainty of treble damages under section 285, the damage-free remedy of inequitable conduct, or the impossible doctrine of *Walker Process* damages.

### C. Elements of RICO

Even though civil RICO is more attractive than other remedies, the difficulties in alleging civil RICO limit the benefits. Under RICO plaintiffs must show (1) conduct<sup>32</sup> (2) of an enterprise<sup>33</sup> (3) through a pattern (4) of racketeering activity.<sup>34</sup> While each of these elements has specific requirements to be met, civil RICO plaintiffs find the most problems with establishing the requisite pattern and activity.

#### 1. Pattern of Activity

A pattern of racketeering activity consists of at least two predicate acts of racketeering committed within a ten-year period.<sup>35</sup> However, exactly what consists of a pattern of racketeering is difficult to define and requires the application of common sense.<sup>36</sup> The courts use a continuity plus relationship test for looking for a pattern of racketeering activity.<sup>37</sup> The

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which misrepresentation or deliberate omission the patent would not have been granted. *C.R. Bard, Inc. v. M3 Sys., Inc.*, 157 F.3d 1340, 1364 (Fed. Cir. 1998).

<sup>32</sup> Conduct liability only extends to those who have “some part in directing [the enterprise’s] affairs.” *Reves v. Ernst & Young*, 507 U.S. 170, 179 (1993). Therefore, sometimes conduct does not include outside defendants like lawyers or accountants. *Id.* at 184-85 (1993).

<sup>33</sup> “‘Enterprise’ includes any individual, partnership, corporation, association, or other legal entity, and any union or group of individuals associated in fact although not a legal entity.” 18 U.S.C. § 1961(4) (2006). This is an expansive definition includes single individuals, law firms, and corporations and their affiliates. However, some minimal level of organizational structure is needed between multiple entities to impose liability for an enterprise. *See VanDenBroeck v. Commonpoint Mortgage Co.*, 210 F.3d 696, 699-700 (6th Cir. 2000).

<sup>34</sup> 18 U.S.C. § 1962(c) (“It shall be unlawful for any person employed by or associated with any enterprise engaged in, or the activities of which affect, interstate or foreign commerce, to conduct or participate, directly or indirectly, in the conduct of such enterprise’s affairs through a pattern of racketeering activity or collection of unlawful debt.”); *see also* *Sedima, S.P.R.L. v. Imrex Co.*, 473 U.S. 479, 496 (1985).

<sup>35</sup> § 1961(5); *see also* *Jennings v. Auto Meter Prods., Inc.*, 495 F.3d 466 (7th Cir. 2007).

<sup>36</sup> *See H.J. Inc. v. Nw. Bell Tel. Co.*, 492 U.S. 229, 239-41 (1989).

<sup>37</sup> *E.g., Jennings*, 495 F.3d at 472-73.

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relationship test, met by showing multiple “related acts,” is usually not a problem in patent cases.<sup>38</sup> Most problems arise in showing continuity.

The proper continuity requires either close-ended criminal behavior or open-ended criminal behavior. Close-ended criminal behavior is conduct that is finished, but endured for “such a substantial period of time that the duration and repetition carries with it an implicit threat of continued criminal activity in the future.”<sup>39</sup> Open-ended conduct is a “course of activity which lacks the duration and repetition to establish continuity . . . showing past conduct which by its nature projects into the future with threat of repetition.”<sup>40</sup> Conduct in the patent sense is usually closed because the acts of fraud are usually alleged after issuance.<sup>41</sup> Either way, the threat of continued criminal activity depends on the specific facts of each case.<sup>42</sup>

## 2. Racketeering Activity

Racketeering activity is defined by a large list of predicate acts.<sup>43</sup> Included in this long list of predicate acts are mail and wire fraud, which helped open up many of the creative applications of RICO to civil defendants.

Mail and wire fraud have similar requirements. Mail and wire fraud are defined as (1) using the mails or wires (2) for any scheme or artifice to defraud, or for obtaining money or property

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<sup>38</sup> The Court defined “related” acts as those “that have the same or similar purposes, results, participants, victims, or methods of commission, or otherwise are interrelated by distinguishing characteristics and are not isolated events.” *H.J. Inc.*, 492 U.S. at 240 (quoting the Dangerous Special Offenders Act, 18 U.S.C. § 3575(e)).

<sup>39</sup> *Jennings*, 495 F.3d at 473 (internal citation omitted).

<sup>40</sup> *Id.*; see *H.J. Inc.*, 492 U.S. at 242 (internal citation omitted).

<sup>41</sup> See, e.g. *Jennings*, 495 F.3d at 473 (finding only closed ended behavior in a civil RICO patent case).

<sup>42</sup> *H.J. Inc.*, 492 U.S. at 242.

<sup>43</sup> 18 U.S.C. § 1961(1) (2006). For example, racketeering activity includes: murder, kidnapping, gambling, arson, robbery, bribery, extortion, dealing in controlled substances, embezzlement from pension and welfare funds, obstruction of justice or criminal investigations, tampering with evidence or witnesses, and trafficking. *Id.* Most importantly, RICO defines racketeering activity to include a large number of fraud related offenses: identification and official document fraud (including passports, naturalization documents, visas, and permits), mail fraud, wire fraud, financial institution fraud, and fraudulent sale of securities. RICO also explicitly covers many intellectual property crimes, such as counterfeiting, trafficking in counterfeit works and various types of copyright infringement including neighboring rights violations. *Id.*

by means of false pretenses.<sup>44</sup> The Supreme Court in *McNally* defined the term “to defraud” as “wronging one in his property rights by dishonest methods.”<sup>45</sup> This includes intangible property rights as well.<sup>46</sup> Furthermore, Congress has expanded the *McNally* definition by including a “scheme or artifice to defraud another of the intangible right of honest services.”<sup>47</sup> Therefore, a scheme or artifice to defraud can be invoked for the purposes of mail or wire fraud by defrauding either (1) tangible or intangible property rights or (2) the intangible right of honest services.

### III. LIMITATIONS ON APPLYING RICO TO PATENT LAW

Parties alleging RICO in patent litigation have been met with resistance by the federal judiciary. Civil RICO conceptually reaches patent infringement by piggy-backing on mail and wire fraud. However, most civil RICO allegations are thrown out for formalistic problems: not showing a proper pattern of activity or failure to meet the predicate act requirement. These problems have led to a reluctance by courts to apply RICO liberally to patent law. However, these formalistic problems serve more as guideposts to the proper application of RICO rather than as a complete bar to its use.<sup>48</sup>

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<sup>44</sup> 18 U.S.C. §§ 1341, 1343.

<sup>45</sup> *McNally v. United States*, 483 U.S. 350, 358 (1987); *see Semiconductor Energy Lab. Co. v. Samsung Elecs. Co.*, 204 F.3d 1368, 1380 (Fed. Cir. 2000) (“The words ‘to defraud’ commonly refer ‘wronging one in his property rights by dishonest methods or schemes’ and ‘usually signify the deprivation of something of value by trick, deceit, chicane, or overreaching.’”).

<sup>46</sup> *Carpenter v. United States*, 484 U.S. 19 (1989).

<sup>47</sup> 18 U.S.C. § 1346 (2006); *Semiconductor Energy Lab. Co.*, 204 F.3d at 1380 n.5.

<sup>48</sup> Other contentious areas include specific pleading and standing. When pleading any claim of fraud, the Federal Rules of Civil Procedure require pleading with specificity. FED. R. CIV. P. 9(b). Failure to plead properly can lead to dismissal. *See VanDenBroeck v. Commonpoint Mortgage Co.*, 210 F.3d 696, 701-02 (6th Cir. 2000); *Rolo v. City Investing Co. Liquidating Trust*, 155 F.3d 644, 658-59 (3d Cir. 1998). Furthermore, the injury alleged by the claimant must be sufficient for proper standing. The claimant must have been directly injured by the fraudulent activity to have standing. *Compare Johnson Elec. N. Am., Inc. v. Mabuchi Motor Am. Corp.*, 98 F. Supp. 2d 480 (S.D.N.Y. 2000) (finding standing based on claim regarding use of wires to sell infringing goods to customers because of lost sales), *and Lemelson v. Wang Labs., Inc.*, 874 F. Supp. 430 (D. Mass. 1994) (finding that investigation and litigation costs were direct injury), *with N. Trust Co. v. Ralson Purina Co.* 1994 WL 605743, at \*5 (N.D. Ill. Nov. 3, 1994) (finding no standing for indirect injury when claimant sought to hold patentee liable for settlement paid by third party indemnification).

## CONTROLLING PATENT TROLLING WITH CIVIL RICO

**A. Civil RICO and Patent Law — Mail Fraud and Wire Fraud**

Creative claimants have alleged civil RICO violations in numerous suits. While patent infringement alone is not a predicate act under RICO,<sup>49</sup> mail and wire fraud are.<sup>50</sup> Under these theories, RICO can be applied liberally to patent law.<sup>51</sup>

Much of patent acquisition and enforcement is done through the mail or wire. Patent applications, affidavits, responses, interferences, and other filings with the PTO are all done through the mail and wire service. Specifically, inequitable conduct seems to meet RICO on its face, like the duty to reveal prior art.<sup>52</sup> However, such filings have been limited to post-grant activity.<sup>53</sup> Theoretically, every mailing, phone call, or electronic communication could be seen as a separate predicate act of mail fraud. Furthermore, threatening filing lawsuits, motions, and other litigation practice is also done via the mail and wire service.<sup>54</sup> An overly litigious patent holder may find himself liable for investigation costs, litigation costs, and reasonable attorney's fees as part of a larger scheme to defraud.<sup>55</sup> As mail and wire fraud only require using the mail or wire services in a scheme to defraud, RICO's broad nature allows both patent holders and alleged infringers to apply this civil remedy.

Patent holders and alleged infringers are at risk for civil RICO violation. As an example, filing false applications and documents with the Patent and Trademark Office, which would deprive the patentee of his vested patent rights, may qualify as mail fraud and as a predicate act under RICO.<sup>56</sup> Zealous enforcement of

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<sup>49</sup> 18 U.S.C. § 1961(1); *Johnson Elec.*, 98 F. Supp. 2d 480 (citing *Michod v. Walker Magnetics Group, Inc.*, 115 F.R.D. 345, 347 (N.D. Ill. 1987)).

<sup>50</sup> 18 U.S.C. §§ 1341, 1343, 1961(1).

<sup>51</sup> However, lawyers applying RICO too liberally run the risk of violating Rule 11. FED. R. CIV. P. 11. Lawyers have been sanctioned for pressing RICO claims based on predicate acts not within the statute's definition of 'racketeering activity' contained in § 1961(1). See *Michod*, 115 F.R.D. at 347 (RICO claim in a patent infringement suit was frivolous because patent infringement is not racketeering activity).

<sup>52</sup> 37 C.F.R. § 1.56 (2007). Pre-grant inequitable conduct no longer qualifies for the purposes of civil RICO as a deprivation of property, but may as a deprivation of honest services. See *Semiconductor Energy Lab. Co.*, 204 F.3d at 1380 n.5.

<sup>53</sup> See *infra* Part III.C.

<sup>54</sup> *Lemelson*, 874 F. Supp. at 434.

<sup>55</sup> 18 U.S.C. § 1264(c); *Lemelson*, 874 F. Supp. at 434.

<sup>56</sup> See *Semiconductor Energy Lab. Co.*, 204 F.3d at 1380 n.5.

patent rights can also serve as a basis for finding RICO violations.<sup>57</sup> Alleged infringers are also at risk. As an example, ambitious patentees have alleged that the act of selling infringing goods to customers using the mail system may open up liability under RICO, although a court in a recent case dismissed this claim.<sup>58</sup> As either side of the litigation is open to attack from RICO, this broad doctrine can affect patent holders as well as patent infringers.

### **B. Limitations on the Pattern of Activity — Length of Time and Number of Victims**

By far, the most common reason for dismissing a RICO claim is a failure to show the requisite pattern of racketeering activity.<sup>59</sup> Courts have been reluctant to uphold RICO claims because of two distinct shortcomings: (1) the length of time of the activity and (2) the number of victims of the activity.<sup>60</sup>

Although a pattern of racketeering activity can be shown by at least two acts over ten years according to the civil RICO statute,<sup>61</sup> courts have routinely found that two acts during that ten year period is necessary, but generally is insufficient to violate civil RICO. Most courts find that acts done over a twelve-month period or less are inadequate.<sup>62</sup> Recently, the court in *Jennings* surveyed the time period of a few acts for RICO and concluded that ten months was too short a window to support continuity for a pattern of racketeering activity.<sup>63</sup> Such a conclusion stems from a

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<sup>57</sup> See *Lemelson*, 874 F. Supp. 430.

<sup>58</sup> *Johnson Elec. N. Am. Inc. v. Mabuchi Motor Am. Corp.*, 98 F. Supp. 2d 480, 491-92 (S.D.N.Y. 2000).

<sup>59</sup> 18 U.S.C. § 1962(c); see, e.g., Michael Goldsmith, *Resurrecting RICO: Removing Immunity for White Collar Crime*, 41 HARV. J. ON LEGIS. 281, 291-94 (2004); Amy A. Weems, Note, *A New Use for Civil RICO: Employees Attempt to Combat the Hiring of Illegal Immigrants*, 28 AM. J. TRIAL. ADVOC. 429, 434 (2004).

<sup>60</sup> Another major point of contention is the number of bad acts. Before *Semiconductor Energy Laboratory Co.*, a number of district courts dismissed RICO claims finding that inequitable conduct is itself a single instance of improper conduct, even when coupled with planned infringement litigation. E.g. *Berkeley Ltd. P'ship v. Int'l Bus. Machs. Corp.*, 1988 WL 156328 (D. Md. Dec. 1, 1988). However, not all courts have agreed with this approach. See *Lemelson*, 874 F. Supp. 430.

<sup>61</sup> 18 U.S.C. § 1961(5); see *Jennings*, 495 F.3d 466.

<sup>62</sup> E.g., *Hughes v. Consol-Pennsylvania Coal Co.*, 945 F.2d 594, 611 (3d Cir. 1991).

<sup>63</sup> *Jennings*, 495 F.3d at 474-75.

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desire to keep RICO from completely supplanting individual instances of fraud.<sup>64</sup>

The continued threat of activity in the future is also dependent on the number of victims. When the number of victims is low, courts are equally hesitant to apply RICO even with years of activity.<sup>65</sup> Courts dismiss RICO when the number of victims is wanting because the lack of victims suggests no threat of long-term conduct.<sup>66</sup> At the very least, more than one victim is required to show a civil RICO violation.<sup>67</sup> However, the number of victims becomes less important when the patentee sues multiple alleged infringers.<sup>68</sup> By considering the number of victims, courts can keep civil RICO from completely subsuming ordinary fraud allegations, like inequitable conduct.

Therefore, a civil RICO allegation in the patent context must overcome two major hurdles under the pattern requirement: the length of the activity and the number of victims. By limiting activity to more than twelve months and more than one victim, the court keeps civil RICO from subsuming ordinary fraud remedies and preserves the required continued threat of activity in the future.

### C. Limitations on Racketeering Activity — Drawing a Line Between Pre- and Post-Grant Activity

Racketeering activity, which almost exclusively focuses around mail and wire fraud in the patent context, may only apply to inequitable conduct occurring after the patent is granted. In 2000, Judge Michel and the Federal Circuit handed down *Semiconductor Energy Lab. Co. v. Samsung Electronics Co.*, where the court limited the application of inequitable conduct to civil RICO claims.<sup>69</sup>

Relying on the *McNally* definition of property, which relates “to defraud” directly to “property,” Judge Michel held “[a]n application that has not matured into a patent cannot properly be deemed governmental property.”<sup>70</sup> As such, “inequitable conduct

<sup>64</sup> *E.g., id.* at 473 (“The state courts and the PTO itself have ample tools to correct any individual instances of fraud or other misconduct.”).

<sup>65</sup> *Id.* at 475-76. Notably, general allegations of harm to the public have also failed. *Id.* (rejecting general claims that the PTO, taxpayers, and incidental market participants were injured).

<sup>66</sup> *See, e.g., id.* at 476.

<sup>67</sup> *See, e.g., id.*

<sup>68</sup> *See, e.g., Lemelson v. Wang Labs., Inc.*, 874 F. Supp. 430 (D. Mass. 1994).

<sup>69</sup> 204 F.3d 1368 (Fed. Cir. 2000).

<sup>70</sup> *Id.* at 1380.



before the PTO cannot qualify as an act of mail fraud or wire fraud for purposes of determining the predicate act requirement.”<sup>71</sup> However, the court did not completely close the door on inequitable conduct before the PTO as a predicate act.

The court did not rule on whether the inequitable conduct before the PTO intended to defraud another of the intangible right of honest services would meet the predicate act requirement.<sup>72</sup> After *Semiconductor*, inequitable conduct does not defraud the government of any property under mail or wire fraud, but it may still deny the right of intangible honest services.

The right of intangible honest services may seem very attractive as a predicate act for mail fraud under 18 U.S.C. § 1346. Section 1346 is usually directed at preventing corruption among public officials, such as through bribery.<sup>73</sup> The trial court in *Semiconductor* suggests that to find a deprivation of intangible right to honest services, the complainant must allege that the government official performed its duties dishonestly because of the conduct of the defendant.<sup>74</sup> In fact, most of the case law applying honest services to public officials involves bribery,<sup>75</sup> kickback schemes,<sup>76</sup> concealment of conflicts of interest,<sup>77</sup> and

<sup>71</sup> *Id.* The court recognized that a patent is, in fact, property after issuance. *Id.* Prior to *Semiconductor Energy Laboratory Co.*, a few courts held that fraud on the Patent Office was a predicate act of racketeering activity. In *Select Creations, Inc. v. Paliqfito Am., Inc.*, 828 F. Supp. 1301 (E.D. Wis. 1992), the court refused to dismiss a claim of civil RICO because in a patent infringement case upon a sufficient showing of a pattern of multiple acts of mail and wire fraud in furtherance of a scheme to defraud. *Id.* at 1359. The predicate acts included “omissions from the patent application,” violating 37 C.F.R. section 1.56(a) and the section’s duty of candor and good faith to disclose information material to the examination of the application. *Id.* at 1359. More importantly, the court specifically rejected the argument that the government does not have a property interest in the patent. *Id.* at 1361.

<sup>72</sup> See 18 U.S.C. § 1346 (2006) (“For the purposes of this chapter, the term “scheme or artifice to defraud” includes a scheme or artifice to deprive another of the intangible right of honest services.”).

<sup>73</sup> Section 1346 also applies to private behavior. *United States v. Wang*, 898 F. Supp. 758 (D. Colo. 1995). However, that is beyond the scope of this paper.

<sup>74</sup> See *Semiconductor Energy Lab. Co. v. Samsung Elecs. Co.*, 4 F. Supp. 2d 473, 476 (E.D.Va. 1998) (“Samsung makes no allegations and no evidence indicates that the PTO provided anything less than honest services or that [defendant] intended for them to provide dishonest services.”); see also *United States v. Mangiardi*, 962 F. Supp. 49, 53 (M.D. Pa. 1997) (“[T]his is not the type of conduct which is proscribed by the mail and wire fraud statutes because the services of the governmental entity/fiduciary is not rendered dishonest by the efforts to elude honest enforcement of the law.”).

<sup>75</sup> See, e.g., *United States v. Brumley*, 116 F.3d 728 (5th Cir. 1997).

<sup>76</sup> See, e.g., *United States v. Castro*, 89 F.3d 1443 (11th Cir. 1996).

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embezzlement of public funds.<sup>78</sup> The intangible right of honest services, therefore, may be stretched to pre-issuance activity in extreme cases of influence. However, this extension is probably limited to methods such as bribery of an examiner.<sup>79</sup>

Although the Federal Circuit seemed to slam the door on pre-issuance inequitable conduct as a predicate act, certain conduct before the PTO may still invoke a RICO predicate act. The *Semiconductor* case seems not to reach all post-issuance filings such as interference proceedings and Abbreviated New Drug Application (ANDA) Paragraph IV filings with the Food and Drug Administration (FDA). Most importantly, *Semiconductor* leaves extortionate litigation schemes as a viable predicate act under civil RICO.

#### IV. RICO APPLIED

Despite the limitations of RICO's application to patent law, RICO can still be applied to discourage patent trolling. The areas where RICO still applies, litigation schemes and certain areas of filing activity, are enough to counteract extensive abuse of the patent system and enforcement process. Such application, while it may disproportionately affect certain industries like pharmaceuticals, can encourage stronger, more reliable patents. Currently, abusive litigation schemes still serve as a basis for civil RICO liability.

##### A. Extortionate Litigation Schemes — Trolls and *Lemelson*

Individual acts of mail and wire fraud under pre- or post-grant activity may still not be enough activity to meet the burden of civil RICO. Such isolated incidents may still be compensated for using the traditional avenues such as inequitable conduct. However, ongoing conduct is not prevented by such normal remedies for fraud. Here, the best avenue for applying civil RICO is to include the resulting litigation conduct as part of the scheme or artifice to defraud, as argued by the plaintiff in *Lemelson*.<sup>80</sup>

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<sup>77</sup> See, e.g., *United States v. Grandmaison*, 77 F.3d 555 (1st Cir. 1996).

<sup>78</sup> See, e.g., *United States v. Fauver*, 888 F. Supp. 668 (M.D. Pa. 1995).

<sup>79</sup> Other types of corruption have flowed from § 1346, such as misappropriation of confidential public information, see, e.g., *United States v. ReBrook*, 58 F.3d 961 (4th Cir. 1995). However, merely hindering the honest performance of public duties is not depriving honest services. *Mangiardi*, 962 F. Supp. 49.

<sup>80</sup> *Lemelson v. Wang Labs., Inc.*, 874 F. Supp. 430, 434 (D. Mass. 1994).

*Lemelson* serves as a guidepost for the proper application of RICO to vexatious litigation schemes. The court in *Lemelson* walked through the requirements of RICO when it refused to dismiss the civil RICO allegation. The court found sufficient injury, enterprise, and pattern of racketeering activity to defeat a motion for summary judgment. First, the court found adequate injury because Wang Laboratories was forced to undertake an investigation to determine the validity of the claims and costs of defending against this litigation scheme.<sup>81</sup> The court then found proper enterprise through association in fact.<sup>82</sup> The court extended the enterprise to Lemelson, his agents, his attorneys, and controlled corporate entities as they acted cohesively for the purposes of coercive patent enforcement using frivolous lawsuits.<sup>83</sup> Finally, the court found a sufficient pattern of racketeering activity based on Lemelson's use of litigation and threat of litigation as part of the scheme to extort settlement monies to survive summary judgment.<sup>84</sup> The predicate acts alleged were the enterprise's repeated and continuous use of the United States mail system and telephone wire to further this extortionate scheme.<sup>85</sup>

The application of civil RICO should be limited to extreme cases, in some combination of fraudulent filings with extortionate litigation. Many of the civil RICO allegations against individual patent holders have failed.<sup>86</sup> However, the contrast between *Lemelson* and the other cases illustrates exactly where civil RICO should be applied. Unlike the questionable patentee claiming against one party, civil RICO should be applied to prevent those who have abused the patent system so far as to hold an entire industry hostage. Such limited application would keep civil RICO out of individual, one-time patent disputes. However, industry-wide litigation is not uncommon.<sup>87</sup> Focusing on litigation schemes

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<sup>81</sup> *Id.* at 432-33.

<sup>82</sup> *Id.* at 433.

<sup>83</sup> *Id.*

<sup>84</sup> *Id.* at 434.

<sup>85</sup> *Id.*

<sup>86</sup> *See supra* Part III.

<sup>87</sup> For example, a company known as Acacia Research Corporation, via its subsidiary, Acacia Media Technologies, has taken on much of the adult and cable industry regarding streaming video technology. *See, e.g.*, Press Release, Acacia Research Corp., Acacia Technologies Files Cable and Satellite TV Patent Infringement Lawsuit (June 15, 2004) (on file with author), <http://www.acaciatechnologies.com/pr/061504litigation.pdf>; *see also* John Borland, *Patent Scare Hits Streaming Industry*, available at <http://news.cnet.com/2100-1023-983552.html> (last visited Nov. 1, 2008).

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instead of individual fraudulent acts would limit the application to Lemelson situations where an enterprise has shown a pattern of racketeering activity by systematically threatening litigation on patents acquired with qualifying predicate acts. Such systematic attacks, by definition, have a number of victims, which satisfies the number of victims limitation on applying civil RICO. By requiring a showing of extortionate litigation, civil RICO's reach can be limited to extreme troll behavior and not rudimentary fraud on the Patent Office.

Limiting civil RICO to extreme cases has doctrinal support. The Patent Office has many measures for dealing with individual cases of fraudulent and abusive activity.<sup>88</sup> Fraudulent filings during prosecution result in unenforceable patents under the doctrine of inequitable conduct.<sup>89</sup> Attempting to use the patent to acquire rights beyond its scope can also render a patent temporarily unenforceable under patent misuse.<sup>90</sup> Treble damages are available for defendants under *Walker-Process* violations and other exceptional cases.<sup>91</sup> However, none of these of these actions punish a repeated abuser any more than an individual instance. Civil RICO, on the other hand, goes one step further. A civil RICO claim should be used when the standard deterrents were not enough to curb the repeated behavior. Such conduct, coupled with vexatious litigation, should be the basis for alleging civil RICO claims in patent law.

Therefore, the *Lemelson* case forms the framework for applying civil RICO to control patent trolling. To prevent displacing ordinary fraud, civil RICO needs to be confined to extreme cases of fraud only, as in *Lemelson*. However, in those situations, courts should be more willing to apply RICO. Civil RICO can be used as a tool to limit repeated abuses of the patent system because such repetition suggests the ordinary fraud deterrents are not enough of a disincentive. The possibility of

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Acacia is a self proclaimed patent holding company, describing itself as "in the business of acquiring, developing, licensing and enforcing patents. We help patent holders protect their patented inventions from unauthorized use and generate revenue from licensing and, if necessary, enforcing their patents." See Acacia Technologies Group, [http://www.acaciatechnologies.com/aboutus\\_main.htm](http://www.acaciatechnologies.com/aboutus_main.htm) (last visited Nov. 1, 2008).

<sup>88</sup> *E.g.*, 37 C.F.R. § 1.56 (2007).

<sup>89</sup> *Id.*; *Mech. Plastic Corp. v. Rawlplug Co.*, 14 U.S.P.Q.2d (BNA) 1058, 1060-61 (S.D.N.Y. 1989).

<sup>90</sup> *E.g.*, *Morton Salt Co. v. G. S. Suppiger Co.* 314 U.S. 488 (1942).

<sup>91</sup> 35 U.S.C. § 285 (2006); *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965).

damages for investigation costs and litigation conduct increase the attractiveness of this option in seeking treble damages.

### B. Fraudulent Filers

Originally, scholarly writing on patent law and RICO focused solely on pre-grant filings. Most of the attention was particularly on the susceptibility of fraud during prosecution using the mails and wire.<sup>92</sup> The multitude of filings of papers and fees, phone calls, pre-grant interferences required when prosecuting a patent formed the basis of this approach.<sup>93</sup> Recent case law has split the modern application of RICO under mail and wire fraud into pre- and post-grant filers.

To qualify for a predicate act of mail or wire fraud under RICO, pre-grant filings must result in a deprivation of honest services.<sup>94</sup> An appropriate predicate act under RICO would use the mail or wire service resulting in such a deprivation.<sup>95</sup> Traditionally, honest services deprivations apply to bribery, kickbacks, and embezzlement involving governmental officials.<sup>96</sup> Merely hindering the honest performance of public duties is not depriving honest services.<sup>97</sup> However, the underlying policy reason recognizes that deprivation of honest governmental services results from exerting such a high level of influence that the government official performs his duties dishonestly.<sup>98</sup> Aside from extreme acts such as bribery, *Semiconductor* has effectively marked the end of applying RICO to ordinary pre-grant inequitable conduct.

Since *Semiconductor* removed pre-grant inequitable conduct from civil RICO, the most readily applicable traditional mail and wire fraud violations come from post-grant filings that deprive an already existing patent holder of his vested property

<sup>92</sup> E.g., Kenneth R. Adamo & Robert P. Ducatman, *Civil Rico – Are Patents Next?*, 66 J. PAT. OFF. SOC'Y 185, 196 (1984) [hereinafter *Are Patents Next?*]; Steve Fasman, *The Proper Application of Civil Rico to Patent Fraud*, 96 YALE L.J. 1323 (1987); see also Kenneth R. Adamo & Robert P. Ducatman, *Civil RICO - The Interface with Intellectual Property*, 56 CLEV. B.J. 160 (1985).

<sup>93</sup> *Are Patents Next?*, *supra* note 92, at 197.

<sup>94</sup> 18 U.S.C. § 1346; *Semiconductor Energy Lab. Co. v. Samsung Elecs. Co.*, 204 F.3d 1368, 1380 n.5 (Fed. Cir. 2000).

<sup>95</sup> 18 U.S.C. §§ 1341, 1343, 1346, 1962(c).

<sup>96</sup> See *supra* Part III.C.

<sup>97</sup> *United States v. Mangiardi*, 962 F. Supp. 49, 53-55 (M.D. Pa. 1997).

<sup>98</sup> *Semiconductor Energy Lab. Co. v. Samsung Elec. Co.*, 4 F. Supp. 2d 473, 476; see *supra* Part III.C.

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right.<sup>99</sup> Post-grant filings have not yet been tested in the courts. Therefore, qualifying predicate acts of mail and wire fraud may still include fraudulent filings during post-grant interferences<sup>100</sup> and ANDA paragraph IV applications.<sup>101</sup>

Post-grant interferences allow a patent challenger to attack granted patent rights and may form a basis for a predicate act under civil RICO. Challengers use post-grant interferences to contest priority. Interferences may be instituted post-grant between an application and a patent already issued as long as that patent application has not been issued for more than one year.<sup>102</sup> During an interference proceeding, the Board of Patent Appeals and Interferences “shall determine questions of priority of the inventions and may determine questions of patentability.”<sup>103</sup> Interferences commonly use the mail or wire systems to make submissions. Notably, any agreements or understandings settling interferences must be in writing and filed with the PTO.<sup>104</sup> Fraudulent filings on the PTO during a post-grant interference proceeding could then easily be seen as an attempt to defraud a patentee of a property right, his patent.<sup>105</sup> Therefore, any fraudulent filings during a post-grant interference proceeding could be qualifying predicate acts under civil RICO.

Generic companies routinely challenge issued pharmaceutical patents via ANDA Paragraph IV applications, which may also qualify as a predicate act under civil RICO. Under the Hatch-Waxman Act, a generic drug manufacturer can challenge an approved brand name drug’s listed patents as invalid or not infringed when applying for an ANDA.<sup>106</sup> Courts have held

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<sup>99</sup> *Semiconductor Energy Lab. Co.*, 204 F.3d at 1380. The reason the Federal Circuit held that inequitable conduct before the PTO cannot qualify as mail or wire fraud under RICO was because “an application that has not yet matured into a patent cannot properly be deemed government property.” *Id.*; see *supra* Part III.C.

<sup>100</sup> 35 U.S.C. § 291.

<sup>101</sup> 21 U.S.C. § 355(j)(2)(A)(vii)(IV); *Mylan Labs., Inc. v. Akzo, N.V.*, 770 F. Supp. 1053 (D. Md. 1991), *aff’d sub nom.* *Mylan Labs., Inc. v. Matkari*, 7 F.3d 1130 (4th Cir. 1993).

<sup>102</sup> 35 U.S.C. § 135(b). Under certain circumstances, the challenger must initiate the proceedings within one year after publication. §§ 122(b), 135(b)(2).

<sup>103</sup> § 135(a); see also § 102(g).

<sup>104</sup> § 135(c).

<sup>105</sup> See *Precision Instrument Mfr. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806 (1945) (finding fraud during the interference proceeding).

<sup>106</sup> § 355(j)(2)(A)(vii)(IV).

that the right to the resulting ANDA itself, as an unissued license, is not property for the purposes of mail fraud.<sup>107</sup> However, the individual right to a license is different from attacking another issued patent. Therefore, fraudulent Paragraph IV filings aimed at depriving the patentee of his vested property right may be a predicate act under civil RICO, regardless of the resulting license.<sup>108</sup>

Other areas of patent prosecution involve post-grant filing but probably do not qualify for civil RICO, like reissue or reexamination proceedings. Reissue proceedings are open to the public to allow third parties to submit evidence and arguments relating to the patentability of the patent application.<sup>109</sup> However, to initiate a reissue proceeding, the patentee must surrender and abandon his prior application. The reissued patent is then given a completely different patent number. Therefore, any third party submissions during a reissue are most likely to be viewed as pre-grant filing, not a post-grant filing, because the reissue is akin to a new application.<sup>110</sup> Similarly, reexamination proceedings allow any third party to challenge the validity of the issued patent, either *ex parte* or *inter partes*.<sup>111</sup> However, reexaminations are limited to submitting other patents or printed publications.<sup>112</sup> The limited scope of review in reexamination suggests a lower possibility for fraud because the PTO is better able to evaluate and to assess patents or printed publications. Therefore, although reissue and reexamination occur post-grant, filings during these proceedings are likely not to qualify as predicate acts under Civil RICO.

Congress has recently contemplated patent reform, including post-grant procedures. One of the major reforms under

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<sup>107</sup> See *Mylan Labs., Inc. v. Akzo, N.V.*, 770 F. Supp. 1053, 1071-73 (D. Md. 1991), *aff'd sub nom.* *Mylan Labs., Inc. v. Matkari*, 7 F.3d 1130 (4th Cir. 1993); see also *Semiconductor Energy Lab. Co. v. Samsung Elecs. Co.*, 204 F.3d 1368, 1380 (Fed. Cir. 2000) (comparing ANDA licenses with pre-issuance patent applications).

<sup>108</sup> See *Semiconductor Energy Lab. Co.*, 204 F.3d at 1379 (“[U]nder federal patent law and Supreme Court precedent, an issued patent constitutes property.”) (citing 35 U.S.C. § 261; *Hartford-Empire Co. v. United States*, 323 U.S. 386, 415 (1945)).

<sup>109</sup> See 35 U.S.C. § 251; § 301 (“Any person at any time may cite to the Office in writing prior art consisting of patents or printed publications which that person believes to have a bearing on the patentability of any claim of a particular patent.”).

<sup>110</sup> However, a reissue does retain the original filing date.

<sup>111</sup> 35 U.S.C. §§ 301, 302, 311-318.

<sup>112</sup> § 302.

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consideration is a post-grant opposition process.<sup>113</sup> Post-grant oppositions would allow third party submissions to challenge or effectively cancel issued patents. Should this reform take place, would-be trolls could attack newly issued patents with fraudulent filings.<sup>114</sup> By definition, a post-grant procedure occurs after the issuance of a patent. The opposition proceeding does not have the limited review of reexamination nor does it require surrendering the patent like reissue. Therefore, civil RICO most likely still applies, and any fraudulent filings with the PTO could still be viewed as a deprivation of property and qualify as a proper predicate act of mail or wire fraud.

Challenging a patent under civil RICO can run afoul of civil RICO in a few distinct areas. During post-grant interferences and ANDA Paragraph IV filings, a would-be challenger exposes himself to qualifying predicate acts under civil RICO. However, the peculiarities of reissue and reexamination - abandonment and limited review, respectively - limit the applicability of civil RICO to those contexts. Finally, modern patent reform may introduce new avenues for abuse, namely post-grant oppositions.

### C. Civil RICO and Brand Name Pharmaceuticals

Broad application of RICO to aggressive litigation of patents may have some unintended consequences and benefits. In particular, the recognition of civil RICO as it applies to patent litigation may disproportionately affect brand name pharmaceutical companies. Brand name pharmaceutical companies spend millions on research and development of their products. Generic manufacturers frequently attempt to circumvent or challenge any patents the brand name companies obtain. The brand name companies, having large interests in maintaining their monopoly rights on patented drugs, bring suit for patent infringement against all generic infringers. The resulting patents are usually challenged by generic manufacturers during either the infringement litigation or ANDA Paragraph IV challenges through allegations of inequitable conduct. Inequitable conduct arises so frequently that the Federal Circuit has even published opinions openly criticizing the over-use.<sup>115</sup> Many of the brand name companies' patents are

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<sup>113</sup> This reform is considered to lower the cost in comparison to outright litigation, but will most likely open the door to more validity questions. Christopher L. Logan, *Patent Reform 2005: HR 2795 and the Road to Post-Grant Oppositions*, 74 UMKC L. REV. 975, 994 (2006).

<sup>114</sup> Post-grant opposition could also be viewed as harming small inventors by allowing large corporations the ability to attack solo inventor's patents. *See id.*

<sup>115</sup> The habit of charging inequitable conduct in almost every major patent case has become an absolute plague. Reputable



then found to be unenforceable because of the patentee's inequitable conduct. This pattern of repetitive, extensive litigation against an industry, the generic manufacturers, and common findings of inequitable conduct suggest that major brand name pharmaceutical companies, much like Lemelson, risk exposure to civil RICO violations.

Although brand name pharmaceutical companies are not technically patent trolls because the companies practice their inventions, liability under civil RICO is still appropriate. The Supreme Court has consistently held that the “public [has] a paramount interest in seeing that patent monopolies spring from backgrounds free from . . . inequitable conduct and that such monopolies are kept within their legitimate scope.”<sup>116</sup> The common inequitable conduct rulings against pharmaceutical companies suggest that the ordinary deterrents toward fraudulent conduct with the PTO are not working. By attaching civil RICO violations on top of the threat of inequitable conduct, the major brand name pharmaceutical companies would have a stronger interest in perfecting patent monopolies free from inequitable conduct. The judicial system will benefit by relying on the strength and clarity of well-prosecuted patents. A presumptively valid patent, prosecuted honestly, should reduce the ability of claimants to allege invalidity. Therefore, although applying civil RICO to litigious behavior to target patent trolls could affect innovative brand name pharmaceutical companies

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lawyers seem to feel compelled to make the charge against other reputable lawyers on the slenderest grounds, to represent their client's interests adequately, perhaps. They get anywhere with the accusation in but a small percentage of the cases, but such charges are not inconsequential on that account. They destroy the respect for one another's integrity, for being fellow members of an honorable profession, that used to make the bar a valuable help to the courts in making a sound disposition of their cases, and to sustain the good name of the bar itself. A patent litigant should be made to feel, therefore, that an unsupported charge of “inequitable conduct in the Patent Office” is a negative contribution to the rightful administration of justice. The charge was formerly known as “fraud on the Patent Office,” a more pejorative term, but the change of name does not make the thing itself smell any sweeter. Even after complete testimony the court should find inequitable conduct only if shown by clear and convincing evidence. A summary judgment that a reputable attorney has been guilty of inequitable conduct, over his denials, ought to be, and can properly be, rare indeed.

Burlington Indus., Inc. v. Dayco Corp., 849 F.2d 1418, 1422 (Fed. Cir. 1988).

<sup>116</sup> Precision Instrument Mfg. Co., v. Auto. Maint. Mach. Co., 324 U.S. 806, 816 (1945).

## CONTROLLING PATENT TROLLING WITH CIVIL RICO

disproportionately, civil RICO would serve the greater public purpose of encouraging stronger patenting in lieu of extensive litigation.

## V. CONCLUSION

The modern patent system is incapable of policing extensive fraud. This inability to control fraudulent activity has created a system susceptible for abuse. The current remedies offered by the courts to counterbalance fraudulent conduct and trolling have not proved a sufficient disincentive to curb this behavior. Specifically, the remedies for fraud have not proven capable of deterring repetitive abusers.

Other areas of law outside patent law have tried to curb repetitive abuse, especially under antitrust. *Walker Process* opened up violators to the treble damages under the Sherman Act. However, *Walker Process* proved so unworkable as to be almost dead letter. Other attempts to control abusive behavior under the patent laws using antitrust have been attempted such as the questionably legal reverse payment settlement where the plaintiff patentee pays the alleged infringer to stay out of the market, the *Noerr-Pennington* doctrine's sham litigation exception, and the patent misuse doctrine. All of these have proven ineffective or unworkable. Simply, there is no effective deterrent to extensive fraud and abuse.

Civil RICO may be that solution. The incentive for using civil RICO is too high to permit its use as a common counterclaim, and the limitations on civil RICO, like the number of victims and the length of activity, help keep civil RICO from overtaking ordinary fraud. While civil RICO should not apply to where the Patent Office's standard remedies of unenforceability for inequitable conduct compensate for individual instances of fraud, civil RICO can be used to limit repeated abuses of the system where these ordinary penalties do not work. Fraud that extends beyond just filing to include *Lemelson* litigation schemes, should be recognized to lead to civil liability under RICO.

Recognizing civil RICO in the patent context may disproportionately affect brand name pharmaceutical companies. Any concerns of the cost to brand name manufacturers are overwhelmingly counterbalanced by the incentive for companies to seek the strongest patents possible. The immediate cost to the brand name companies may be high, but the overall public good demands patents with integrity. The public benefits by confidence in the fortitude of its patents. The judicial system benefits when patents stand firm against invalidity. Civil RICO will promote honesty and fair dealing throughout the patent process, from when

the brand name companies acquire their patent through when they litigate their patents.

The modern abuses of the patent system need to be addressed. Congress is attempting to remedy these problems in modern patent reform. However, effective, pre-existing law should not be ignored. As the courts have previously attempted to control patent abuse using the antitrust laws, courts should not overlook the ability of civil RICO to apply in patent litigations. Although violations may be rare and should only be found for extreme abuses, the result could be a reduction in extensive fraud on the Patent Office, a reduction in the misuse of the court systems, and a higher quality of issued patents. Patent holding companies may then think twice about using such dubious tactics in acquisition, challenging existing patentees, and enforcement.